

**Jagex Limited**  
**Annual report and financial statements**  
**for the year ended 31 December 2016**

Company Registration Number: 03982706



# **Jagex Limited**

## **Report and Financial Statements 31 December 2016**

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# **Jagex Limited**

## **Report and Financial Statements 31 December 2016**

### **Officers and Professional Advisers**

#### **Directors**

R Cousens (Resigned 24/01/2017)  
P Mansell (Appointed 24/01/2017)  
J Pan  
J Yang  
Z Cui (Resigned 24/01/2017)  
Z li (Resigned 24/01/2017)  
Z Yang  
X Wang (Appointed 24/01/2017)

#### **Secretary**

Richard Colledge (Resigned 24/01/2017)  
Yuan Hui Huang (Appointed 24/01/2017)

#### **Registered Office**

St Johns Innovation Centre  
Cowley Road  
Cambridge  
CB4 0WS  
U.K.

#### **Auditor**

UHY Hacker Young LLP  
Chartered Accountants and Statutory Auditor  
Quadrant House  
4 Thomas More Square  
London  
E1W 1YW  
U.K.

# **Jagex Limited**

## **Strategic Report**

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Jagex Limited and its subsidiary undertakings when viewed as a whole.

### **Review of the business**

The video games industry continues to expand globally with the expectation of it achieving between \$91 and \$100 billion for the year ending Dec 2016. Much of this growth is coming from China which has grown 27% to \$7b in the year and is expected to continue to rise to over \$10.9 billion by 2020. Mobile games are the largest growth segment and this is expected to continue in future years. The PC/PCMMO market represents around 30% of the overall industry and the segment is expected to continue to show growth of around 6-8%.

This form of interactive entertainment has given rise to new business models with live services and extra content driving long product engagement. The free to play business model has brought new consumers into gaming while subscription services provide consistent, predictable revenues. The importance of franchises is evidenced in the fact that the lion's share of industry profits are delivered by franchise titles and well known, well-loved IP which in-turn reduces R&D risk.

In being a participant in the video games industry, Jagex develops, markets and publishes games software content and services that can be played by consumers on a variety of platforms and devices.

In 2016 Jagex's digital business model reach covered full game downloads, live services, extra content, subscriptions and free to play with micro-transactions. Our business strategy in delivering our products and services across multiple platforms and devices is critical to maintaining and growing our overall consumer base which continues to evolve in response to the introduction of new platforms and platform business models. We have started to develop games for Mobile Phones and allow for inter-operability on our franchises across platforms to enhance the consumer experience. We are extending our global operations and see this as further opportunity for growth.

Following on from 2015's strong performance the studio has continued to focus on the bedrock which has got the company to where it is today. By focusing on RuneScape and Old School RuneScape the company has had clear priorities which the team have delivered upon with fantastic success, driving the revenues to grow by over 28% year on year to £74.4m without sacrificing profitability which has also grown by 22% to £28.8m.

This is even more remarkable with the fact that this has been achieved whilst going through a sale process which saw the company change ownership in the summer of 2016. Jagex became part of the ZhongJi Holding group a publically listing company on the Chinese stock exchange. This has created a number of new opportunities for the company to take a more global perspective and expand the reach for RuneScape and future projects.

It was not all success during the year, as Chronicle: RuneScape Legends, a collectible card game, did not meet expectations. Despite positive reviews from press and players, and good monetisation metrics, the title did not retain a long-term audience at scale. We do still look for further opportunities for the title at lower investment levels.

Learning from this, Jagex has continued to mature in its process for developing and commissioning new games, evaluating product performance throughout development and taking action to limit risk exposure. A mobile game commissioned from a 3<sup>rd</sup> party was halted early in development when user testing was underwhelming, prior to the substantial investment in full development and marketing needed to bring the product to market. Similarly, acting as licensor to another 3<sup>rd</sup> party, Jagex decided with the licensee to withhold the game from

# Jagex Limited

## Strategic Report

launch as the performance metrics were not strong enough (at no additional cost exposure to Jagex). This approach allows Jagex to experiment and be innovative whilst limiting cost exposure compared to traditional development practices.

RuneScape and its retro sibling Old School RuneScape have continued to enjoy deep and consistent engagement from a large community. With a philosophy of games-as-a-service and player-driven development Jagex has been able to use customer insights, marketing, social media and community interaction to extend and grow audiences deep into the product lifecycles. We believe these games, the franchise, and the audience of fans will continue to provide us with new opportunities. These games have clearly demonstrated a history of success and profitability and the players' passion for the brand has endured. It continues to attract a large and engaged community capable of generating operating profit over a long period of time.

With this as a bedrock, the Company is building a pathway for franchise extension, innovation and creativity. It provides for continued investment, both to the existing live games, towards new games within the RuneScape franchise and in new IP, with a view to diversity across genres, demographic reach, platforms and business models. We are looking to create deeply engaging interactive entertainment, offering up long term opportunity from new innovation and regular content update to drive engagement and support player investment.

Jagex is looking forward to on-going success in 2017 with high expectations from the launch of our first expansion of the year for RuneScape entitled "The Golden City of Menaphos" coming in the summer of 2017 and continuing our successful eSports events in RuneScape Old School throughout the year.

We are expecting continued growth beyond 2017 via a slate of exceptional content and new initiatives in PC, mobile and Virtual Reality games, which have been identified as bright spots that can build on our audience's entertainment preferences in the future.

The Company employed 303 people as at the end of 2016 and the Board of Directors and shareholders are appreciative of their support and commitment in making it the best year on record.

### Key performance indicators

The Group has several key performance measures used internally to monitor and challenge performance and to assist investment decisions. Significant key performance indicators are:

- Revenue;
- Subscribers;
- Operating profit before exceptional items; and
- Headcount

Performance in the year ended 31 December 2016 and comparative information for the previous year is summarised below.

|                          | Year ended 31<br>December 2016 | Year ended 31<br>December 2015 |
|--------------------------|--------------------------------|--------------------------------|
| Revenue (£000)           | 74,424                         | 57,857                         |
| Exceptional Items (£000) | 9,280                          | 1,527                          |
| Operating profit (£000)  | 28,132                         | 20,437                         |
| Headcount (average)      | 323                            | 338                            |
| Subscribers              | 2.082m                         | 1.945m                         |

## **Jagex Limited**

### **Strategic Report**

#### **Principal risks and uncertainties**

The key risks to which the business is exposed are summarised as follows:

- competitive pressure, which could result in losing active players and subscription numbers to our key competitors or other on-line entertainment sites;
- failure to make sure that costs stay in line with our projected revenues and to keep within our development timeframes and cost bases for the new products coming to market in future years.
- delays and development issues with intangible assets.
- making sure that all new games and content added is to the highest quality and bug free to help our products succeed in the market place,;
- the hiring and retention of qualified personnel; and
- possible claims by external parties of infringements on their intellectual property rights.

The Group aims to mitigate these risks as appropriate with measures including:

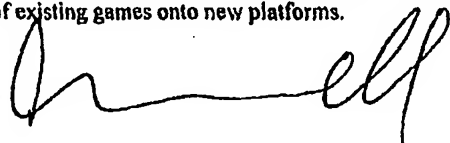
- aiming to continue innovating and testing new game concepts and mechanics making use of new technologies available to us by investing in training for our staff so we can utilise them more effectively.
- develop compelling new game content, by working closely with our in game communities to develop content that is desired within our player base.
- ensuring we have a robust greenlight process for all new products and content to make sure we keep the quality of our offerings high.
- continue to perform and develop our focus group testing and running beta programmes focused on receiving feedback and identifying areas for improvement, implementing comprehensive testing programmes,
- launching new games whilst regularly monitoring the player behaviour utilising the high degree of skill we have in our analytic teams and interacting with the community as well as observing games industry trends
- continue to regularly review the employee benefits and compensation package to make sure we remain competitive in the market.

#### **Future developments**

The Group intends to release multiple expansions to Runescape later this year expanding the universe our players can explore.

Jagex also plans to build on the success of Old School Runescape with greater focus on the eSports potential which we began to see during 2016.

Expanding the Runescape franchise continues to be a key focus, both in the form of new games and extensions of existing games onto new platforms.



P Mansell

Director

27 March 2017

# **Jagex Limited**

## **Directors' Report**

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2016.

### **Future developments**

Details of future developments can be found in the Strategic Report and forms part of this report by cross-reference.

### **Research and development**

The Group is continually updating its current game offering. Development expenditure for existing titles is not capitalised and is written off in the year it is incurred. Development expenditure on new projects is capitalised and will be amortised over a 2-year period post launch.

### **Going concern**

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The key uncertainties around the business are noted in the Strategic Report which can be found on page 4.

### **Financial risk management objectives and policies**

The Group's activities expose it to a number of financial risks including foreign exchange risk, credit risk and liquidity risk.

#### ***Foreign Exchange risk***

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group seeks to minimise the exposure of this by matching foreign currency receipts to payments where possible.

#### ***Credit risk***

The Group's principal financial assets are bank and cash balances and trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The majority of the Group's receivables are due from institutions regulated by the banking sector. Other receivables are monitored on a regular basis.

#### ***Liquidity risk***

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group reviews the working capital requirement on a weekly basis in light of the current business trends.

### **Dividends**

The directors paid dividends in the year of £30.4m (year ended 31 December 2015 - £nil).

# **Jagex Limited**

## **Directors' Report (continued)**

### **Directors**

The directors, who held office during the year and up to date of signature of the financial statements, were as follows:

Rodney Cousens (Resigned 24/01/2017)  
Philip Mansell (Resigned 08/10/2016 and appointed 24/01/2017)  
John Salter (Resigned 20/06/2016)  
Jeff Horing (Resigned 20/06/2016)  
Brandon Gardner (Resigned 20/06/2016)  
Michael Farrell (Resigned 20/06/2016)  
Jinyu Pan (Appointed 07/10/2016)  
Jianxing Yang (Appointed 19/12/2016)  
Zhihui Yang (Appointed 20/06/2016)  
Zhihuo Cui (Appointed 20/06/2016 and resigned 24/01/2017)  
Zhibin Li (Appointed 20/06/2016 and resigned 24/01/2017)  
Xiaoqiang Wang (Appointed 24/01/2017)

### **Directors' indemnities**

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### **Political contributions**

No political donations were made during the year.

### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **Employee consultation**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, as well as regular communication of KPIs (Key Performance Indicators).

### **Auditor**

Deloitte LLP resigned as auditor of the group in December 2016 and UHY Hacker Young LLP was subsequently appointed as auditor to the Group.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

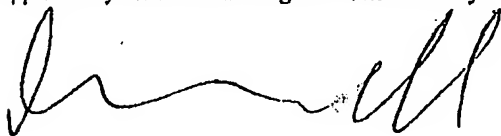
## **Jagex Limited**

### **Directors' Report (continued)**

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The auditors, UHY Hacker Young LLP have expressed their willingness to continue in office, and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P Mansell', written over a horizontal line.

P Mansell  
Director  
27 March 2017

# **Jagex Limited**

## **Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the group and the company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Jagex Limited**

### **Independent auditor's report to the members of Jagex Limited**

We have audited the financial statements of Jagex Limited for the year ended 31 December 2016 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in the preparation of the consolidated and parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements:

## **Independent auditor's report to the members of Jagex Limited**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Julie Wilson (Senior Statutory Auditor)**  
for and on behalf of **UHY Hacker Young LLP**  
Chartered Accountants and Statutory Auditor  
Quadrant House  
4 Thomas More Square  
London  
E1W 1YW

**27** March 2017

# Jagex Limited

## Consolidated profit and loss account For the year ended 31 December 2016

|  |      | 2016<br>£         | 2015<br>£         |
|--|------|-------------------|-------------------|
|  | Note |                   |                   |
| <b>Turnover</b>                                      | 4    | 74,423,778        | 57,857,097        |
| Cost of sales  |      |                   |                   |
| Exceptional cost of sales expenses                   | 6    | -                 | (237,061)         |
| Other cost of sales                                  |      | (24,543,205)      | (21,469,923)      |
|  |      | <hr/>             | <hr/>             |
| Total cost of sales                                  |      | (24,543,205)      | (21,706,984)      |
|  |      | <hr/>             | <hr/>             |
| <b>Gross profit</b>                                  |      | 49,880,573        | 36,150,113        |
| Administrative expenses                              |      |                   |                   |
| Exceptional administrative expenses                  | 6    | (9,279,671)       | (1,289,959)       |
| Other administrative expenses                        |      | (12,468,468)      | (14,423,152)      |
|  |      | <hr/>             | <hr/>             |
| Total administrative expenses                        |      | (21,748,139)      | (15,713,111)      |
|  |      | <hr/>             | <hr/>             |
| <b>Operating profit</b>                              |      | 28,132,434        | 20,437,002        |
| Finance income/(costs) (net)                         | 5    | 345,133           | 9,861             |
|  |      | <hr/>             | <hr/>             |
| <b>Profit on ordinary activities before taxation</b> |      | 28,477,567        | 20,446,863        |
| Tax on profit on ordinary activities                 | 9    | 360,178           | 3,229,872         |
|  |      | <hr/>             | <hr/>             |
| <b>Profit for the financial year</b>                 |      | <u>28,837,745</u> | <u>23,676,735</u> |

All activities derive from continuing operations.

## **Jagex Limited**

### **Consolidated statement of comprehensive income For the year ended 31 December 2016**

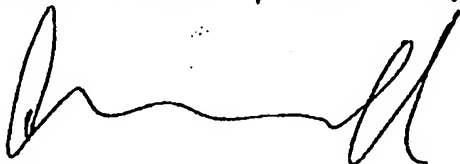
|   | <b>2016</b><br><b>£</b> | <b>2015</b><br><b>£</b> |
|---|-------------------------|-------------------------|
| <b>Profit for the financial year</b>                                | 28,837,745              | 23,676,735              |
| <b>Other comprehensive income</b>                                   |                         |                         |
| Currency translation difference on foreign currency net investments | 28,649                  | -                       |
| <b>Total comprehensive income</b>                                   | <u>28,866,394</u>       | <u>23,676,735</u>       |

# Jagex Limited

## Consolidated balance sheet At 31 December 2016

|  | Note | 2016<br>£                | 2015<br>£                |
|--|------|--------------------------|--------------------------|
| <b>Fixed assets</b>  |      |                          |                          |
| Intangible assets  | 12   | 180,575                  | -                        |
| Tangible assets  | 13   | 1,431,043                | 1,866,327                |
|  |      | <u>1,611,618</u>         | <u>1,866,327</u>         |
| <b>Current assets</b>  |      |                          |                          |
| Stocks   | 15   | 200,045                  | 214,686                  |
| Debtors  |      |                          |                          |
| -- due within one year   | 16   | 34,494,276               | 10,513,206               |
| -- due after one year  | 16   | 880,525                  | 226,914                  |
| Cash at bank and in hand                                       |      | 18,541,074               | 43,970,747               |
|  |      | <u>54,115,920</u>        | <u>54,925,553</u>        |
| <b>Creditors: Amounts falling due within one year</b>          | 17   | <u>(20,062,811)</u>      | <u>(18,748,292)</u>      |
| <b>Net current assets</b>                                      |      | <u>34,053,109</u>        | <u>36,177,261</u>        |
| <b>Total assets less current liabilities</b>                   |      | <u>35,664,727</u>        | <u>38,043,588</u>        |
| <b>Creditors: Amounts falling due after more than one year</b> | 18   | -                        | -                        |
| <b>Provisions for liabilities</b>                              | 19   | <u>(5,212,469)</u>       | <u>(4,970,792)</u>       |
| <b>Net assets</b>  |      | <u><u>30,452,258</u></u> | <u><u>33,072,796</u></u> |
| <b>Capital and reserves</b>                                    |      |                          |                          |
| Called-up share capital  | 22   | 11,267                   | 11,267                   |
| Share premium account  | 22   | 80                       | 80                       |
| Share-based payment reserve                                    | 22   | -                        | 2,579,047                |
| Profit and loss account  |      | 30,440,911               | 30,482,402               |
| <b>Shareholders' funds</b>                                     |      | <u><u>30,452,258</u></u> | <u><u>33,072,796</u></u> |

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 27 March 2017. They were signed on its behalf by:



P Mansell  
Director

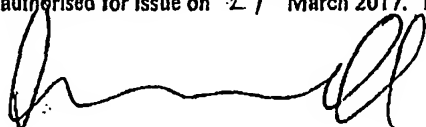
# **Jagex Limited**

## **Company balance sheet**

**At 31 December 2016**

|  | Note | 2016<br>£           | 2015<br>£           |
|--|------|---------------------|---------------------|
| <b>Fixed assets</b>  |      |                     |                     |
| Intangible assets  | 12   | 180,575             | -                   |
| Tangible assets  | 13   | 1,431,043           | 1,866,327           |
| Investments  | 14   | -                   | -                   |
|  |      | <u>1,611,618</u>    | <u>1,866,327</u>    |
| <b>Current assets</b>  |      |                     |                     |
| Inventories  | 15   | 200,045             | 214,686             |
| Debtors  |      |                     |                     |
| - due within one year  | 16   | 34,494,276          | 10,513,206          |
| - due after one year   | 16   | 879,959             | 226,914             |
| Cash at bank and in hand                                       |      | <u>18,447,011</u>   | <u>43,901,796</u>   |
|  |      | 54,021,291          | 54,856,602          |
| <b>Creditors: Amounts falling due within one year</b>          | 17   | <u>(20,062,704)</u> | <u>(18,747,953)</u> |
| <b>Net current assets</b>                                      |      | <u>33,958,587</u>   | <u>36,108,649</u>   |
| <b>Total assets less current liabilities</b>                   |      | <u>35,570,205</u>   | <u>37,974,976</u>   |
| <b>Creditors: Amounts falling due after more than one year</b> | 18   | -                   | -                   |
| <b>Provisions for liabilities</b>                              | 19   | <u>(5,212,469)</u>  | <u>(4,970,792)</u>  |
| <b>Net assets</b>  |      | <u>30,357,736</u>   | <u>33,004,184</u>   |
| <b>Capital and reserves</b>                                    |      |                     |                     |
| Called-up share capital  | 22   | 11,267              | 11,267              |
| Share premium account  |      | 80                  | 80                  |
| Share-based payment reserve                                    |      | -                   | 2,579,047           |
| Retained earnings  |      |                     |                     |
| - Profit brought forward                                       |      | -                   | 6,737,055           |
| - Transferred from share-based payment reserve                 |      | 1,505,905           | -                   |
| Profit and loss account  | 10   | <u>28,840,484</u>   | <u>23,676,735</u>   |
| <b>Shareholders' funds</b>                                     |      | <u>30,357,736</u>   | <u>33,004,184</u>   |

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 27 March 2017. They were signed on its behalf by:



P Mansell  
Director

## Jagex Limited

### Consolidated statement of changes in equity At 31 December 2016

|   | Called-up<br>share<br>capital<br>£ | Share<br>premium<br>account<br>£ | Share-based<br>payment<br>reserve<br>£ | Profit and<br>loss account<br>£ | Total<br>£   |
|---|------------------------------------|----------------------------------|--|---------------------------------|--------------|
| <b>At 1 January 2015</b>  | 11,267                             | 80                               | 2,537,706                              | 6,805,667                       | 9,354,720    |
| Profit for the financial year                                       | -                                  | -                                | -                                      | 23,676,735                      | 23,676,735   |
| <b>Total comprehensive income</b>                                   | -                                  | -                                | -                                      | 23,676,735                      | 23,676,735   |
| Credit to equity for equity settled share-based payment             | -                                  | -                                | 41,341                                 | -                               | 41,341       |
| <b>At 31 December 2015</b>  | 11,267                             | 80                               | 2,579,047                              | 30,482,402                      | 33,072,796   |
| Profit for the financial year                                       | -                                  | -                                | -                                      | 28,837,745                      | 28,837,745   |
| Currency translation difference on foreign currency net investments | -                                  | -                                | -                                      | 28,649                          | 28,649       |
| <b>Total comprehensive income</b>                                   | -                                  | -                                | -                                      | 28,866,394                      | 28,866,394   |
| Credit to equity for equity settled share-based payment             | -                                  | -                                | 23,153                                 | -                               | 23,153       |
| Cash cancellation settlement  | -                                  | -                                | (2,602,200)                            | 1,505,905                       | (1,096,295)  |
| Dividends   | -                                  | -                                | -                                      | (30,413,790)                    | (30,413,790) |
| <b>At 31 December 2016</b>  | 11,267                             | 80                               | -                                      | 30,440,911                      | 30,452,258   |

## Jagex Limited

### Company statement of changes in equity At 31 December 2016

|   | <b>Called-up<br/>share<br/>capital<br/>£</b> | <b>Share<br/>premium<br/>account<br/>£</b> | <b>Share-based<br/>payment<br/>reserve<br/>£</b> | <b>Profit and<br/>loss account<br/>£</b> | <b>Total<br/>£</b> |
|---|--|--|--|--|--------------------|
| <b>At 1 January 2015</b>                                | 11,267                                       | 80   | 2,537,706  | 6,737,017                                | 9,286,070          |
| Profit for the financial year                           | -  | -  | -  | 23,676,773                               | 23,676,773         |
| <b>Total comprehensive income</b>                       | -  | -  | -  | 23,676,773                               | 23,676,773         |
| Credit to equity for equity settled share-based payment | -  | -  | 41,341   | -  | 41,341             |
| <b>At 31 December 2015</b>                              | 11,267                                       | 80   | 2,579,047  | 30,413,790                               | 33,004,184         |
| Profit for the financial year                           | -  | -  | -  | 28,840,484                               | 28,840,484         |
| <b>Total comprehensive income</b>                       | -  | -  | -  | 28,840,484                               | 28,840,484         |
| Credit to equity for equity settled share-based payment | -  | -  | 23,153   | -  | 23,153             |
| Cash cancellation settlement                            | -  | -  | (2,602,200)                                      | 1,505,905                                | (1,096,295)        |
| Dividends   | -  | -  | -  | (30,413,790)                             | (30,413,790)       |
| <b>At 31 December 2016</b>                              | 11,267                                       | 80   | -  | 30,346,389                               | 30,357,736         |

# Jagex Limited

## Consolidated cash flow statement For the year ended 31 December 2016

|  | Note | 2016<br>£           | 2015<br>£         |
|--|------|---------------------|-------------------|
| Net cash from operating activities                           | 23   | 31,488,681          | 23,696,978        |
| Taxation received  |      | 1,580,443           | 2,620,568         |
| <b>Net cash generated from operating activities</b>          |      | <b>33,069,124</b>   | <b>26,317,546</b> |
| <b>Cash flows from investing activities</b>                  |      |                     |                   |
| Purchase of equipment  |      | (1,118,698)         | (500,399)         |
| Development costs  |      | (180,575)           | -                 |
| Loan made to parent company                                  |      | (26,062,657)        | -                 |
| Interest received  |      | 347,423             | 28,450            |
| Interest paid  |      | (2,290)             | (18,589)          |
| <b>Net cash used in investing activities</b>                 |      | <b>(27,016,797)</b> | <b>(490,538)</b>  |
| <b>Cash flows from financing activities</b>                  |      |                     |                   |
| Repayments of obligations under finance leases               |      | (46,490)            | 106,411           |
| Dividends paid to owners                                     |      | (30,413,790)        | -                 |
| Share based payments   |      | (1,096,294)         | -                 |
| <b>Net cash used in financing activities</b>                 |      | <b>(31,556,574)</b> | <b>106,411</b>    |
| <b>Net (decrease)/ increase in cash and cash equivalents</b> |      | <b>(25,504,247)</b> | <b>25,933,419</b> |
| <b>Cash and cash equivalents at beginning of year</b>        |      | <b>43,970,747</b>   | <b>18,118,472</b> |
| Effect of foreign exchange rate changes                      |      | 74,574              | (81,144)          |
| <b>Cash and cash equivalents at end of year</b>              |      | <b>18,541,074</b>   | <b>43,970,747</b> |
| <b>Reconciliation to cash at bank and in hand:</b>           |      |                     |                   |
| Cash at bank and in hand                                     |      | 18,541,074          | 43,970,747        |
| <b>Cash and cash equivalents</b>                             |      | <b>18,541,074</b>   | <b>43,970,747</b> |

# **Jagex Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

### **1. General information**

Jagex Limited is incorporated and domiciled in England and Wales, with subsidiaries in the United States. The registered office is: St Johns Innovation Centre, Cowley Road, Cambridge CB4 0WS, U.K.

The principal activity of the Company and the Group is the developing and publishing of online computer games.

The Group and the Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Companies Act 2006.

### **2. Significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### ***a. Basis of preparation***

These consolidated and separate financial statements are prepared on a going concern basis, under historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The functional currency of Jagex Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

FRS102 allows a qualifying entity certain disclosure exemptions in preparing its single entity financial statements, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The Company meets the definition of a qualifying entity, and therefore has taken disclosure exemptions in relation to share based payments, financial instruments, presentation of a cash flow statement and key management personnel compensation.

#### ***b. Basis of consolidation***

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year.

A subsidiary is an entity controlled by the Group.

All intra-Group transactions, balances income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group's interest in the entity.

#### ***c. Going concern***

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements. These forecasts show that the Group has sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Thus the directors have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

# **Jagex Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

### ***d. Tangible fixed assets***

Tangible fixed assets are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

|                        |               |
|------------------------|---------------|
| Computer equipment     | 33% per annum |
| Fixtures and fittings  | 20% per annum |
| Leasehold improvements | 20% per annum |

Residual value represents the estimated amount which would currently be obtained from the disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

### ***e. Intangible Fixed Assets***

Intangible fixed assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life. Amortisation is charged to administrative expenses in the profit and loss account.

Development cost is directly attributable to a new product development controlled by the Group are recognised as intangible assets when the following criteria are met:

- Project is technically feasible
- The intention of the company is to complete the product and sell it
- There is ability to sell the product
- It is likely the product will generate future economic benefits
- Resources are available to complete the product
- Expenditure of the product can be measured reliably.

### ***f. Investments***

Investments held as fixed assets are stated at cost less provision for any impairment in value.

### ***g. Leases***

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

# **Jagex Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

### ***h. Taxation***

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### ***i. Foreign exchange***

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period, and their balance at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of comprehensive income. All other exchange differences are included in the profit and loss account.

### ***j. Research and development***

Expenditure on research and development, except capitalised as intangible fixed assets, is written off to the profit and loss account in the year in which it is incurred.

### ***k. Pensions***

The company operates a defined contribution pension scheme and the pension charge represents amounts payable by the company to the fund in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

# **Jagex Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

### ***l. Stocks***

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes the cost of material plus expenditure incurred on freight and duty. Cost is calculated using the Weighted Average method. Provision is made for obsolete, slow-moving or defective items where appropriate.

### ***m. Turnover***

Turnover represents the amounts (excluding Value Added Tax), derived from the provision of goods and services to customers and is recognised as follows:

- revenue from the sale of subscriptions is recognised rateably over the period of the subscription, calculated on a daily basis;
- revenue from the sale of microtransactions that provide an ongoing benefit to a user's account is recognised over the expected engagement period of the game;
- revenue from the sale of microtransactions that provide an instant acceleration of gameplay to a user's account, providing an acceleration to in-game progression, is recognised at the point of acceleration. This is typically at the point of usage;
- advertising revenue is recognised in the accounting period in which it was earned. This is typically the period in which the advertisements are hosted;

## **Jagex Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

#### ***n. Financial instruments***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

##### ***(i) Financial assets and liabilities***

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

##### ***(ii) Equity instruments***

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

#### ***o. Impairment of assets***

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

#### ***p. Share-based payment***

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

# **Jagex Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

### **3. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Critical judgements in applying the Group's accounting policies***

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### ***Revenue recognition***

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in FRS 102 Section 23 Revenue. The directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate.

Revenue relating to unused loyalty points has been deferred at the balance sheet date to the extent that these are expected to be redeemed. This deferral is based on the balance of outstanding, accumulated loyalty points and the expected usage of these based on historical data collated on their use within the game. However, in June 2016, a refresh of the loyalty points store was done and this resulted in an inability to place a value on loyalty points so no future deferrals of revenue in regards of this are to be made.

#### ***Key source of estimation uncertainty – Global Sales Tax Provisions***

Determining whether, and to what extent, a potential Global Sales Tax liability exists in overseas countries requires estimation based on available information and lack of final clarification from the local tax authorities.

The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 4. Turnover

An analysis of the Group's turnover is as follows:

|                           | 2016<br>£         | 2015<br>£         |
|---------------------------|-------------------|-------------------|
| Subscription revenue      | 46,879,490        | 37,622,226        |
| Micro transaction revenue | 27,025,917        | 19,662,958        |
| Advertising revenue       | 375,560           | 469,949           |
| Other income              | 142,811           | 101,964           |
|                           | <u>74,423,778</u> | <u>57,857,097</u> |

Other income includes revenue from ticket event sales and the sale of merchandise.

Turnover by geographic location has not been disclosed. As in the opinion of the directors, such disclosures could be seriously prejudicial to the interests of the Group.

### 5. Finance income/ (costs)

|                                      | 2016<br>£      | 2015<br>£    |
|--------------------------------------|----------------|--------------|
| Interest payable and similar charges | (2,290)        | (18,589)     |
| Less: Investment income              | 347,423        | 28,450       |
|                                      | <u>345,133</u> | <u>9,861</u> |

#### *Interest payable and similar charges*

|                       | 2016<br>£      | 2015<br>£       |
|-----------------------|----------------|-----------------|
| Other finance charges | <u>(2,290)</u> | <u>(18,589)</u> |

#### *Investment income*

|                       | 2016<br>£      | 2015<br>£     |
|-----------------------|----------------|---------------|
| Other income          | -              | 3,555         |
| Other interest income | 347,423        | 24,895        |
|                       | <u>347,423</u> | <u>28,450</u> |

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

|   | 2016<br>£   | 2015<br>£ |
|---|-------------|-----------|
| Depreciation of tangible fixed assets (note 13) | 1,429,385   | 2,250,560 |
| Loss on disposal of fixed assets (note 13)      | 154,445     | 46,483    |
| Bad debt expense                                | -           | (10,997)  |
| Research and development                        | -*          | 826,187   |
| Operating lease rentals                         | 1,004,405   | 893,119   |
| Foreign exchange gain                           | (2,903,151) | (626,356) |
| Exceptional cost of sales expenses              | -           | 237,061   |
| Exceptional administrative expenses             | 9,279,671   | 1,289,959 |

Included within current year administrative expenses are exceptional costs being £9,279,671 relating to corporate finance activity costs incurred.

\*Development costs incurred during the year have been fully capitalised.

Included within prior year cost of sales are exceptional costs being £354,825 of costs incurred relating to redundancies (note 19) and a credit of £117,764 relating to the release of an unused component of the redundancy provision.

The analysis of the auditor's remuneration is as follows:

|  | 2016<br>£ | 2015<br>£ |
|--|-----------|-----------|
| Fees payable to the Company's auditors for the audit of the group and company's financial statements | 60,000    | 68,000    |
| Fees payable to the Company's auditor for other services   |           |           |
| Tax consultancy  | -         | 73,500    |
| Other services relating to tax   | 5,000     | 5,925     |
| Other services (non-tax)   | -         | 166,085   |
| Total non-audit fees   | 5,000     | 245,510   |

No services were provided pursuant to contingent fee arrangements.

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 7. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

|                       | 2016<br>Number | 2015<br>Number |
|-----------------------|----------------|----------------|
| Directors             | 2              | 2              |
| Commercial/Management | 63             | 70             |
| Development           | 137            | 158            |
| Customer relations    | 53             | 46             |
| Technical             | 68             | 62             |
|                       | <u>323</u>     | <u>338</u>     |

Their aggregate remuneration comprised:

|                       | 2016<br>£         | 2015<br>£         |
|-----------------------|-------------------|-------------------|
| Wages and salaries    | 15,891,711        | 15,896,943        |
| Social security costs | 1,908,346         | 1,751,037         |
| Other pension costs   | 622,828           | 422,111           |
| Share-based payment   | 23,153            | 41,341            |
|                       | <u>18,446,038</u> | <u>18,111,432</u> |

### 8. Directors' remuneration and transactions

|   | 2016<br>£        | 2015<br>£        |
|---|------------------|------------------|
| <i>Directors' remuneration</i>                          |                  |                  |
| Emoluments  | 1,719,985        | 1,647,322        |
| Company contributions to money purchase pension schemes | 82,219           | 15,875           |
|   | <u>1,802,204</u> | <u>1,663,197</u> |

|  | Number   | Number   |
|--|----------|----------|
| The number of directors who:   |          |          |
| Are members of a money purchase pension scheme                                 | 2        | 2        |
| Had awards receivable in the form of shares under a long-term incentive scheme | <u>2</u> | <u>2</u> |

|   | 2016<br>£        | 2015<br>£        |
|---|------------------|------------------|
| <b>Remuneration of the highest paid director:</b> |                  |                  |
| Emoluments  | 1,419,363        | 1,166,982        |
| Company contributions to money purchase schemes   | 70,969           | 6,875            |
|   | <u>1,490,332</u> | <u>1,173,857</u> |

The highest paid director did not exercise share options in the year (2015: nil), but received a cancellation cash settlement of £435,177 (note 11).

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 9. Tax on profit on ordinary activities

The tax credit comprises:

|   | 2016<br>£        | 2015<br>£          |
|---|------------------|--------------------|
| <b>Current tax on profit on ordinary activities</b> |                  |                    |
| UK corporation tax                                  | (123,063)        | (532,844)          |
| Adjustments in respect of prior years               | (237,115)        | (3,459,201)        |
| <b>Total current tax</b>                            | <b>(360,178)</b> | <b>(3,992,045)</b> |
| <b>Deferred tax</b>                                 |                  |                    |
| Origination and reversal of timing differences      | -                | -                  |
| Change in recognition of deferred tax asset         | -                | 762,173            |
| Effect of increase in tax rate on opening liability | -                | -                  |
| <b>Total deferred tax (see note 20)</b>             | <b>-</b>         | <b>762,173</b>     |
| <b>Total tax on profit on ordinary activities</b>   | <b>(360,178)</b> | <b>(3,229,872)</b> |

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates set at 20%. In the Budget on 16 March 2016, the UK Government proposed, amongst other things, UK corporation tax will be 19% with effect from 1 April 2017 and further reduction to 17% with effect from 1 April 2020.

The closing deferred tax assets and liabilities have been calculated at 19% in accordance with the rates enacted at the balance sheet date. Having used 19% as the expected deferred tax rate, this is because that in the future the Group plans to use more outside specialists to develop games which therefore is not continued to qualify for VGTR. Runescape profits are expected to drop which lessens the relief qualified from Patent Box. Once other new games launch and generate profits it is likely in the next 2-3 years, the Group is going to be potentially liable to corporation tax. However, unrelieved tax losses and other deferred tax assets are not recognised on the basis of all available evidence and uncertainty of the Group's future profits. There is no expiry date on timing differences, unused tax losses or tax credits.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax, is as follows:

|  | 2016<br>£         | 2015<br>£          |
|--|-------------------|--------------------|
| <b>Group profit on ordinary activities before tax</b>  | <b>28,477,567</b> | <b>20,446,863</b>  |
| Tax on Group profit on ordinary activities at blended standard UK corporation tax rate of 20 per cent (2015: 20.25 per cent) | 5,695,513         | 4,140,490          |
| Effects of:  |                   |                    |
| - Expenses not deductible for tax purposes   | 2,097,102         | 56,313             |
| - Fixed asset timing differences – deferred tax not recognised   | -                 | 114,060            |
| - Other timing differences – deferred tax not recognised   | -                 | (363,099)          |
| - Utilisation of tax losses – deferred tax not recognised  | (1,962,260)       | (92,856)           |
| - Video games tax relief   | (2,021,752)       | (2,197,843)        |
| - Effect of other tax rates – video games tax relief   | (24,613)          | (101,240)          |
| - Patent box   | (3,907,053)       | (2,088,669)        |
| - Change in deferred tax asset   | -                 | 762,173            |
| - Adjustments to tax charge in respect of previous periods – current tax   | (237,115)         | (3,459,201)        |
| <b>Group total tax credit for period</b>   | <b>(360,178)</b>  | <b>(3,229,872)</b> |

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 10. Profit attributable to the Company

The Company has elected to take the exemption under Section 408 of the Companies Act 2006, not to present the Company profit and loss account. Therefore, the profit for the Company for the financial year is shown in its individual balance sheet.

#### 11. Share-based payments

##### *Equity-settled share option schemes*

The Company had a share option scheme for certain employees of the Company. Options were exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period was up to five years. If the options had remained unexercised after a period of five years from the date of grant, the options expire. Options were forfeited if the employee leaves the Company before the options vest.

Details of the share options outstanding during the year are as follows:

|                                      | 2016                       |  | 2015                       |  |
|--------------------------------------|----------------------------|--|----------------------------|--|
|                                      | Number of<br>share options | Weighted<br>average<br>exercise<br>price (£) | Number of<br>share options | Weighted<br>average<br>exercise<br>price (£) |
| Outstanding at beginning of period   | 19,889,635                 | 0.13   | 61,759,148                 | 0.13   |
| Forfeited during the period          | (2,253,498)                | 0.13   | (41,869,513)               | 0.13   |
| Cash cancelled during the period     | (17,636,137)               | 0.05   | -                          | -  |
| Outstanding at the end of the period | -                          | -  | 19,889,635                 | 0.13   |
| Exercisable at the end of the period | -                          | -  | -                          | -  |

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised total expenses of £23,153 and £41,341 related to equity-settled share-based payment transactions in 2016 and 2015 respectively.

The Group paid cash cancellation to participants in the Unapproved Employee Share Option Scheme, amounting to £1,096,295 immediately prior to take over. The unused share based payment reserve has been transferred to profit and loss reserve.

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 12. Intangible fixed assets

| <b>Group and Company</b> | <b>Intellectual<br/>property<br/>£</b> | <b>Development<br/>costs<br/>£</b> | <b>Total<br/>£</b> |
|--------------------------|--|------------------------------------|--------------------|
| <b>Cost</b>              |  |                                    |                    |
| At 1 January 2016        | 349,800                                | -                                  | 349,800            |
| Additions                | -                                      | 180,575                            | 180,575            |
| At 31 December 2016      | 349,800                                | 180,575                            | 530,375            |
| <b>Amortisation</b>      |  |                                    |                    |
| At 1 January 2016        | 349,800                                | -                                  | 349,800            |
| Charge for the year      | -                                      | -                                  | -                  |
| At 31 December 2016      | 349,800                                | -                                  | 349,800            |
| <b>Net book value</b>    |  |                                    |                    |
| At 31 December 2016      | -                                      | 180,575                            | 180,575            |
| At 31 December 2015      | -                                      | -                                  | -                  |

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 13. Tangible fixed assets

| Group and Company                        | Leasehold<br>improvements<br>£ | Fixtures and<br>fittings<br>£ | Computer<br>equipment<br>£ | Total<br>£  |
|--|--------------------------------|-------------------------------|----------------------------|-------------|
| <b>Cost</b>                              |                                |                               |                            |             |
| At 1 January 2016                        | 1,847,320                      | 421,337                       | 6,218,831                  | 8,487,488   |
| Reclassification                         | 81,250                         | (81,651)                      | 76,703                     | 76,302      |
| Additions                                | 265,238                        | 57,794                        | 795,666                    | 1,118,698   |
| Disposals                                | (30,157)                       | (87,199)                      | (1,501,553)                | (1,618,909) |
| At 31 December 2016                      | 2,163,651                      | 310,281                       | 5,589,647                  | 8,063,579   |
| <b>Depreciation</b>                      |                                |                               |                            |             |
| At 1 January 2016                        | 1,483,077                      | 332,117                       | 4,805,967                  | 6,621,161   |
| Reclassification                         | 67,702                         | (70,293)                      | 49,045                     | 46,454      |
| Charge for the year                      | 314,898                        | 56,031                        | 1,058,456                  | 1,429,385   |
| Disposals                                | (15,938)                       | (71,757)                      | (1,376,769)                | (1,464,464) |
| At 31 December 2016                      | 1,849,739                      | 246,098                       | 4,536,699                  | 6,632,536   |
| <b>Net book value</b>                    |                                |                               |                            |             |
| At 31 December 2016                      | 313,912                        | 64,183                        | 1,052,948                  | 1,431,043   |
| At 31 December 2015                      | 364,243                        | 89,220                        | 1,412,864                  | 1,866,327   |
| <b>Leased assets included<br/>above:</b> |                                |                               |                            |             |
| <b>Net book value</b>                    |                                |                               |                            |             |
| At 31 December 2016                      | -                              | -                             | -                          | -           |
| At 31 December 2015                      | 140,841                        | -                             | -                          | 140,841     |

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 14. Fixed asset investments

| Company                         | Other<br>investments<br>£ | Subsidiary<br>undertakings<br>£ | Total<br>£ |
|---------------------------------|---------------------------|---------------------------------|------------|
| <b>Cost</b>                     |                           |                                 |            |
| At 1 January 2016               | 135,000                   | 308,718                         | 443,718    |
| Written off                     | (135,000)                 | -                               | (135,000)  |
| At 31 December 2016             | -                         | 308,718                         | 308,718    |
| <b>Provision for impairment</b> |                           |                                 |            |
| At 1 January 2016               | 135,000                   | 308,718                         | 443,718    |
| Written off                     | (135,000)                 | -                               | (135,000)  |
| At 31 December 2016             | -                         | 308,718                         | 308,718    |
| <b>Net book value</b>           |                           |                                 |            |
| At 31 December 2016             | -                         | -                               | -          |
| At 31 December 2015             | -                         | -                               | -          |

#### Principal Group investments

The Company has invested in the following subsidiary undertakings. Other investment was 35% stake in Omnigon Games Limited, which was incorporated in England and Wales, and struck off on 22 March 2016.

| Subsidiary undertaking           | Country of incorporation | Principal activity | Holdings | Percentage |
|----------------------------------|--------------------------|--------------------|----------|------------|
| Jagex Holdings Limited, Inc.*    | United States            | Non-trading        | Ordinary | 100%       |
| Jagex Managements Limited, Inc.* | United States            | Dormant            | Ordinary | 100%       |

\*Both subsidiaries are held directly by Jagex Limited.

#### 15. Inventories

| Group and Company                   | 2016<br>£ | 2015<br>£ |
|-------------------------------------|-----------|-----------|
| Finished goods and goods for resale | 200,045   | 214,686   |

There is no material difference between the balance sheet value of stock and their replacement cost.

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 16. Debtors

|   | Group             |                   | Company           |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2016              | 2015              | 2016              | 2015              |
|   | £                 | £                 | £                 | £                 |
| Amounts falling due within one year:          |                   |                   |                   |                   |
| Trade debtors                                 | 4,391,755         | 6,294,726         | 4,391,755         | 6,294,726         |
| Prepayments and accrued income                | 3,179,130         | 2,135,191         | 3,179,130         | 2,135,191         |
| Other debtors                                 | 1,899             | 4,190             | 1,899             | 4,190             |
| Corporation tax                               | 858,835           | 2,079,099         | 858,835           | 2,079,099         |
| Intercompany Loan                             | 26,062,657        | -                 | 26,062,657        | -                 |
|   | <u>34,494,276</u> | <u>10,513,206</u> | <u>34,494,276</u> | <u>10,513,206</u> |
| Amounts falling due after more than one year: |                   |                   |                   |                   |
| Deferred tax asset (note 20)                  | -                 | -                 | -                 | -                 |
| Other debtors                                 | 880,525           | 226,914           | 879,959           | 226,914           |
|   | <u>880,525</u>    | <u>226,914</u>    | <u>879,959</u>    | <u>226,914</u>    |

### 17. Creditors – amounts falling due within one year

|  | Group             |                   | Company           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016              | 2015              | 2016              | 2015              |
|  | £                 | £                 | £                 | £                 |
| Obligations under finance leases and hire purchase contracts (note 18) | -                 | 44,200            | -                 | 44,200            |
| Trade creditors  | 1,077,043         | 1,869,734         | 1,076,936         | 1,869,395         |
| Other taxation and social security                                     | 1,310,188         | 1,232,447         | 1,310,188         | 1,232,447         |
| Other creditors  | 100,853           | 71,530            | 100,853           | 71,530            |
| Accruals and deferred income   | 17,574,727        | 15,530,381        | 17,574,727        | 15,530,381        |
|  | <u>20,062,811</u> | <u>18,748,292</u> | <u>20,062,704</u> | <u>18,747,953</u> |

### 18. Creditors – amounts falling due after more than one year

Finance leases are repayable as follows:

|                              | Group    |               | Company  |               |
|------------------------------|----------|---------------|----------|---------------|
|                              | 2016     | 2015          | 2016     | 2015          |
|                              | £        | £             | £        | £             |
| Finance leases               |          |               |          |               |
| On demand or within one year | -        | 44,200        | -        | 44,200        |
|                              | <u>-</u> | <u>44,200</u> | <u>-</u> | <u>44,200</u> |

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 19. Provisions for liabilities

|                                    | Redundancy<br>provision<br>£ | Provisions for<br>Global Sales<br>Tax<br>£ | Total<br>£ |
|------------------------------------|------------------------------|--|------------|
| <b>Group and Company</b>           |                              |  |            |
| At 1 January 2016                  | 400,937                      | 4,569,855                                  | 4,970,792  |
| Charged to profit and loss account | -                            | 1,109,281                                  | 1,109,281  |
| Released unused                    | -                            | (466,667)                                  | (466,667)  |
| Utilisation of provision           | (400,937)                    | -  | (400,937)  |
|                                    | <hr/>                        | <hr/>                                      | <hr/>      |
| At 31 December 2016                | -                            | 5,212,469                                  | 5,212,469  |
|                                    | <hr/>                        | <hr/>                                      | <hr/>      |

#### *Provisions for Global Sales Tax*

The provision for global sales tax represents management's estimate of tax which could become due on sales in territories outside the United Kingdom. The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

#### *Utilisation of redundancy provision*

There's no additional provision has been made and charged to profit and loss account during the year. The provision brought forward has been fully utilised.

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 20. Deferred tax asset

No deferred tax is recognised during the year:

|                          | 2016<br>£ | 2015<br>£ |
|--------------------------|-----------|-----------|
| <b>Group and Company</b> |           |           |
| Deferred tax             | -         | 762,173   |
| Movement during the year | -         | (762,173) |
|                          | <u>-</u>  | <u>-</u>  |

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

#### Unrecognised deferred tax asset

A deferred tax asset not is not recognised in the current year as in the Directors' opinion there is no certainty of future taxable profits to offset these against.

|                                | 2016<br>£        | 2015<br>£        |
|--------------------------------|------------------|------------------|
| <b>Group and Company</b>       |                  |                  |
| Accelerated capital allowances | 462,852          | 471,881          |
| Tax losses available           | 1,197,602        | 1,850,800        |
| Other timing differences       | 18,144           | 32,590           |
|                                | <u>1,678,598</u> | <u>2,355,271</u> |

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 21. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

|   | <b>Group</b>      |                  | <b>Company</b>    |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | <b>2016</b>       | <b>2015</b>      | <b>2016</b>       | <b>2015</b>      |
|   | <b>£</b>          | <b>£</b>         | <b>£</b>          | <b>£</b>         |
| <b>Financial assets</b>                             |                   |                  |                   |                  |
| Measured at undiscounted amount receivable          |                   |                  |                   |                  |
| • Trade and other debtors (note 16)                 | 5,274,179         | 6,525,830        | 5,273,613         | 6,525,830        |
| Equity instruments measured at cost less impairment |                   |                  |                   |                  |
| • Loan to other group companies (note 16)           | 26,062,657        | -                | 26,062,657        | -                |
|   | <u>31,336,836</u> | <u>6,525,830</u> | <u>31,336,270</u> | <u>6,525,830</u> |
| <b>Financial liabilities</b>                        |                   |                  |                   |                  |
| Measured at amortised cost                          |                   |                  |                   |                  |
| • Obligations under finance leases (note 17 and 18) | -                 | 44,200           | -                 | 44,200           |
| Measured at undiscounted amount payable             |                   |                  |                   |                  |
| • Trade and other creditors (note 17)               | 2,488,084         | 3,173,711        | 2,487,977         | 3,173,372        |
|   | <u>2,488,084</u>  | <u>3,217,911</u> | <u>2,487,977</u>  | <u>3,217,572</u> |

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

|  | <b>Group</b> |               | <b>Company</b> |               |
|--|--------------|---------------|----------------|---------------|
|  | <b>2016</b>  | <b>2015</b>   | <b>2016</b>    | <b>2015</b>   |
|  | <b>£</b>     | <b>£</b>      | <b>£</b>       | <b>£</b>      |
| <b>Interest income and expense</b>                                 |              |               |                |               |
| Total interest expense for financial liabilities at amortised cost | <u>2,290</u> | <u>18,589</u> | <u>2,290</u>   | <u>18,589</u> |

## Jagex Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 22. Called-up share capital and reserves

|  | 2016<br>£ | 2015<br>£ |
|--|-----------|-----------|
| <b>Allotted, called-up and fully-paid</b>    |           |           |
| 1,126,753,629 ordinary shares of 0.001p each | 11,267    | 11,267    |

The Company has one class of ordinary shares which carry no right to fixed income.

The Group and Company's other reserves are as follows:

- The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.
- The share-based payment reserve represents the extent of cumulative expenses relating to equity settled share-based payment transactions.
- Retained earnings represents the cumulative profits or losses brought forward and profit for the year attributable to owners, net of dividends paid and other adjustments.

#### 23. Cash flow statement

##### *Reconciliation of operating profit to cash generated by operations:*

|  | 2016<br>£         | 2015<br>£          |
|--|-------------------|--------------------|
| Operating profit                                       | 28,132,434        | 20,437,002         |
| Adjustment for:  |                   |                    |
| Share-based payment expense                            | 23,153            | 41,341             |
| Depreciation and amortisation                          | 1,429,385         | 2,250,560          |
| Fixed asset disposal adjustment in 2015                | (29,848)          | -                  |
| Loss on sale of tangible fixed assets                  | 154,445           | 46,483             |
| Operating cash flow before movement in working capital | 29,709,569        | 22,775,386         |
| Decrease/(increase) in stocks                          | 14,641            | 127,254            |
| Decrease/(increase) in debtors                         | 208,279           | (2,189,001)        |
| Increase in creditors                                  | 1,314,515         | 2,501,783          |
| Increase/(decrease) in provisions                      | 241,677           | 481,556            |
| <b>Cash generated by operations</b>                    | <b>31,488,681</b> | <b>-23,696,978</b> |

# Jagex Limited

## Notes to the financial statements For the year ended 31 December 2016

### 24. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

|                              | 2016                       |              | 2015                       |               |
|------------------------------|----------------------------|--------------|----------------------------|---------------|
|                              | Land and<br>buildings<br>£ | Other<br>£   | Land and<br>buildings<br>£ | Other<br>£    |
| <b>Group and Company</b>     |                            |              |                            |               |
| - within one year            | 1,088,987                  | 1,576        | 1,025,873                  | 18,917        |
| - between one and five years | 8,333,663                  | -            | 4,355,948                  | 1,576         |
| - after five years           | 8,310,211                  | -            | 3,811,455                  | -             |
|                              | <u>17,732,861</u>          | <u>1,576</u> | <u>9,193,276</u>           | <u>20,493</u> |

As at the date of this report capital commitment for refurbishment of the office is approx. £400K.

### 25. Employee benefits

#### *Defined contribution schemes*

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2016 was £622,828 (2015: £422,111).

### 26. Related party transactions

#### **Group**

##### Transactions with subsidiaries

Balance with Shanghai Hongtou Network Technology Co Limited totalled £26,062,657 at the end of the financial year.

##### Transactions with key management personal

The total remuneration for key management personnel for the period totalled £3,354,821 (2015: £2,697,823), being remuneration disclosed in note 8 of £1,802,204 (2015: £1,663,197) and share-based payment expenses of £615,943 (2015: £nil).

See note 8 for disclosure of the directors' remuneration and key management compensation. (No share based payment information in note 8)

#### **Company**

Other than transactions disclosed in note 8, the Company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

### 27. Controlling party

The immediate parent company is Shanghai Hongtou Network Technology Co Limited which owns 100% of the shares of the company, a company registered in P.R.China. The acquisition took place on 20<sup>th</sup> June 2016 with 100% of the share of the company purchased at this time.

The ultimate parent company is Shanghai Zhongji Investment Holding Co., Ltd, a company registered in P.R.China and listed in Shanghai stock exchange.